Washington State Community, Trade and Economic Development

August 24, 2000

Bonneville Power Administration
PO Box 12999
Portland, OR 97212

Re: PS-6, Power Sales Contract Options

Dear Bonneville Power Administration,

The Washington State Office of Trade and Economic Development, Energy Division, is pleased to respond to your invitation to comment on the options that the Bonneville Power Administration (BPA) has proposed for the resumption of signing of Subscription Contracts. We believe that BPA has acted very responsibly in suspending the signing of contracts in order to give itself and the region the opportunity to assess the possible impacts the recent volatility in west coast wholesale electricity markets may have on BPA's long-term financial condition.

In trying to assess whether Option 1 or Option 2 is preferable, we, like BPA, have developed a set of principles that frame our analysis. Our principles are completely in harmony with the six criteria listed on page one of the "Options Paper," which we strongly endorse.

First, the state of Washington has consistently supported the subscription process and principles enunciated in various subscription documents, including the principle of spreading the benefits of the system broadly across the region.

Second, we believe that the allocation of benefits among customer classes in the final subscription strategy and in the rate case is satisfactory and should not be changed.

Third, we have supported the development of Slice contracts as a way of ensuring long-term commitments by utility customers to BPA.

Fourth, any response to the new financial situation should not change the distribution of benefits previously agreed to and should cause as little disruption as possible to the signing of subscription contracts.

Fifth, any response should provide BPA with the flexibility it needs to address contingencies over the life of the rate case without having to re-open rate case issues.

We believe that Option 2 is more likely to allow the continued implementation of these principles than Option 1. Our reasoning is as follows:

First, although both Option 1 and Option 2 contain risks, we believe that if Option 2 can be put in place quickly, it has fewer long-term risks than Option 1. Option 2, by adjusting the CRAC mechanism makes it much more likely that BPA will be able to get through the entire rate period without having to re-open the rate structure and will be able to respond to a broad range of changes in the external environment.

Second, Option 2-- and specifically Option 2c- best manage risk by making the range of possible rate increases more predictable. We lean towards option 2c because although it creates a situation where a CRAC is more likely to trigger, there would be a smaller impact on rates each time. Therefore, it sends a signal to subscription customers of BPA that rate increases over the term of their contracts are likely, but that these increases will be within a fairly narrow range. Option 1, we believe, creates a false hope that it might be possible to slide through the five-year rate period without significant changes in rates. While this is certainly possible, it is also possible that customers might be faced with very large rate increases. A mechanism, such as Option 2c that bounds the range of rate changes is preferable.

Third, any re-opening of rates during the contract period will inevitably tempt some interests to ask for a re-opening of how benefits are distributed. We strongly believe that getting subscription in place for five years is essential if there is to be any kind of reasoned and reasonable discussion of how the northwest can preserve the benefits of the Columbia River System in the long run. Creating the expectation of a new rate case in one, two or three years will only encourage many regional interests to use a new rate case to ask for a re-distribution of benefits. Only Option 2 can lock-in the distribution of benefits in the rate case and subscription ROD.

Fourth, as the parallel comments from the WA State Utilities and Transportation Commission indicate, Option 2 provides an opportunity to redress the likelihood that benefits to residential customers of IOUs might decline as the market price of power rises.

Having made a strong case for Option 2, we fully acknowledge that if Option 2 cannot be put in place in a timely manner, it is not really a viable option. Therefore, BPA should strive to find a way to adjust the CRAC and the IOU benefits formula so that the Administrator and FERC can bring closure to Subscription by the end of the calendar year. If this timetable is not feasible, then BPA may be left only with Option 1, however unsatisfactory it to us.

We should also mention that since BPA's analysis of the situation is based on an expectation that it will need to augment its resources by more than the 1500 aMW that was proposed in the rate case, we believe that this also creates an expectation that BPA will increase its conservation efforts in support of augmentation commensurately. We urge BPA to immediately commence consultation with the Northwest Power Planning Council about the amount it should increase its conservation targets and re-convene the Con/Aug working group to deal with those increased targets.

Again, thank you for the opportunity to comment. We hope you find our observations useful in coming to a decision that will be in the best interests of the region.

Sincerely,

Dave Warren
Director, Energy Division

cc: Dave Danner, WA State Office of Financial Management
Tom Karier, Northwest Power Planning Council
Washington Utilities & Transportation Commission
Howard Schwartz, Energy Division, OTED